

<b>Subject:</b>	<b>Preston Barracks Redevelopment</b>		
<b>Date of Meeting:</b>	<b>5 December 2013</b>		
<b>Report of:</b>	<b>Executive Director Environment, Development &amp; Housing and Executive Director Finance &amp; Resources</b>		
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE**

**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 This report advises the Policy & Resources Committee of progress made in negotiations between the council, the University of Brighton (“the University”) and the Cathedral Group Ltd (“Cathedral”), the University’s preferred development partner, towards the potential disposal of the Preston Barracks site as a means of enabling comprehensive redevelopment of the existing council owned site and adjacent University land.
- 1.2 It outlines the proposals for a revised scheme jointly prepared by the University and Cathedral, and advises of the financial offer made to the council, and the basis for this. It also sets out the recommendations of the Preston Barracks Project Board, which seek support for the work to date and for the continuation of negotiations leading to a satisfactory conclusion, with the ultimate aim of facilitating this important redevelopment.

**2. RECOMMENDATIONS:**

That Policy & Resources Committee:

- 2.1 Note the proposals submitted to the council by the University and Cathedral, and the considerable progress that has been made during the past 3 months, progress which suggests a financially viable solution is in reach, and support the Project Board’s view that negotiations should continue.
- 2.2 Note the financial offer made to the council by the University and Cathedral, and their proposals to work in Joint Venture to acquire the freehold of the Preston Barracks site from the council, and agree the principles of the financial offer and the deal structure that supports this as the basis for further negotiation.
- 2.3 Note the draft Heads of Terms in the Part II Appendix and the current state of play regarding ongoing negotiations.
- 2.4 Authorise the Executive Director Finance & Resources, Executive Director Environment, Development & Housing and Head of Law to continue negotiations

as directed by the Project Board, and agree that the outcome of these negotiations should be reported to a future meeting of the Project Board for endorsement prior to completion.

- 2.5 Subject to 2.4, authorise the Head of Law to complete the required suite of documents in consultation with the Executive Director Finance & Resources and Executive Director Environment, Development & Housing.

### 3. CONTEXT/ BACKGROUND INFORMATION

- 3.1. The council has worked in partnership with the University since 2009, and has jointly undertaken a number of important preparatory stages through which scheme options and delivery arrangements have been considered. Key among these was agreement to the 'Shared Vision' (2009), completion of a Site Capacity Assessment (2010), approval of the Planning Brief (2011), and preparation of a Masterplan, covering Preston Barracks, Mithras House and Watts Campus sites, that was completed at the end of 2012.
- 3.2 While that masterplan met many of the partners development aspirations, incorporated positive features and was consistent with the Planning Brief, it was found to be financially unviable. In response to this, during the early part of 2013, the council and University undertook further financial analysis and reviewed a range of options.
- 3.3 The outcome of this work was reported to the Project Board in June 2013, and the Policy & Resources Committee on 11<sup>th</sup> July 2013. The committee supported the Project Board's view "that the partnership with the University of Brighton and alignment with the Greater Brighton City Deal 'Growth Hub' proposals presented the preferred route to successful delivery of the regeneration of the Preston Barracks site."
- 3.4 The Committee also "authorised the Executive Director Finance & Resources, Executive Director Environment Development & Housing and Head of Law **to enter into further negotiations to actively consider disposal of the Preston Barracks site to the University of Brighton and/or its development partner** to enable delivery of the mixed use scheme, subject to a further report to the Project Board and Policy & Resources Committee being required to detail the proposed terms of such a disposal."
- 3.5 Negotiations began immediately, with the first tripartite meeting being held on 12<sup>th</sup> July. That meeting confirmed that the partners shared a real commitment to deliver a high quality mixed-use scheme that was consistent with the established vision; a scheme that would meet the city's priorities as well the University's operational requirements and its desire for a modern campus environment. It was therefore agreed that the University and Cathedral would jointly prepare a formal proposal for consideration by the council.
- 3.6 The University and Cathedral submitted a detailed proposition in August 2013. It set out details for a revised mixed-use scheme, together with their financial offer to acquire the site from the council.

## The Scheme

3.7 The proposed scheme builds on the 2012 Masterplan, which for all its challenges has helped establish a broad framework, but has sought to respond to the previous areas of non-viability. With Cathedral's involvement they have appraised the masterplan and tailored an approach to development in line with Cathedral's direct experience. Consistent with earlier iterations, the scheme includes employment space, housing, new university academic buildings and student accommodation. A key part of the scheme is the employment element dubbed the 'Central Research Laboratory' (CRL), which forms part of the proposed Growth Centre at Preston Barracks, a core part of the Greater Brighton City Deal proposals.

3.8 The scheme includes the following mix of uses across the 3 sites:

Site	Use	Sqm (gross external)	Units
<b>Preston Barracks</b>	Residential (inc 20% affordable)	28,276	350
	Employment (CRL)	5,278	
	Student residential	12,702	472
	Retail	2,114	
	Health	1,200	
	<b>Barracks total -</b>	<b>49,570</b>	
	Car parking (podium)	8,030	250 spaces
<b>Mithras House</b>	Academic Building (new Business School)	8,233	
	Student residential	17,923	552
	Retail	723	
<b>Watts car park</b>	Future academic expansion space	8,121	
	Student residential	7,704	264
	Retail	370	
	<b>University total -</b>	<b>43,074</b>	
	University car parking (podium)	8521	265 spaces
<b>Units Summary</b>		Residential	350
		Student residential	1,288
		Car parking spaces	515

## 'Central Research Laboratory – Greater Brighton City Deal 'Growth Centre'

- 3.9 As reported to Policy & Resources Committee on 17<sup>th</sup> October 2013, the revised proposals for Preston Barracks include developing part of the site as a CRL Growth Centre aligned to the City Deal proposals. The aim of the Growth Centre is to develop a CRL that will become a magnet for innovation, connecting the University of Brighton, SMEs and entrepreneurs with investors. New high tech, design led manufacturing start up businesses and entrepreneurs will receive high quality business innovation support to help them to develop and grow. The focus will be upon university research specialisms, linked to the key technologies that have been identified by the government as future drivers of sustainable economic growth: big data; nanotechnology/nanostructured smart materials; regenerative medicine; musculoskeletal/degenerative disease; and recycling of economically critical materials. Initial projections indicate that the CRL will provide 740 net new jobs and economic benefit to the city of £466m GVA over a ten year period.

### Joint Venture

- 3.10 The University and Cathedral have an established working relationship that goes back to 2006, and have worked closely, alongside the council, on the development of the Circus Street project. The University and Cathedral intend to work in Joint Venture (JV), through which they will pool their resources to undertake the entire development. It is their current intention that the University will lead on the delivery of its main uses on existing university land and that Cathedral will develop the more commercial elements on the Preston Barracks site.
- 3.11 The precise nature of the JV structure (e.g. detailed arrangements including responsibility for profits, losses and costs associated with the development) is yet to be finalised between the University and Cathedral, but the likelihood is that it will be by way of an unincorporated contractual joint venture.
- 3.12 It is anticipated that the JV will enter into the sale and purchase contract with the council and the draft Heads of Terms for that agreement are covered in a later section of this report. The JV will then be responsible for seeking to secure planning consent for Preston Barracks and also the wider masterplan to include development on Mithras House and the Watts car park. Development of all three sites will therefore form part of a single planning application and it is their intention to develop/build university and commercial uses in parallel. This would be a significant improvement on the position in the earlier masterplan, where the employment space was shown to be in a late phase in anticipation of market recovery.

### Financial Offer

- 3.13 The offer to the council by the University and Cathedral to purchase the 2.2 hectare Preston Barracks site is based on acquisition of the freehold or a 250 year leasehold interest in the land. The financial offers for 1) freehold disposal and 2) leasehold disposal are as shown in the appendix in Part II. The reduced value offer for the leasehold disposal reflecting the impact of the more restrictive nature of a leasehold interest.

- 3.14 Their preferred option is to acquire the vacant freehold interest. Having considered the financial offers and progress at meetings in September, October and November 2013, the Project Board supported consideration of the freehold disposal, but emphasised that this should be on the proviso that there would be commitment to the delivery of the entire development and that there should be adequate provisions in the agreement to deal with failure to do so. Negotiations have therefore proceeded on the basis of freehold disposal.
- 3.15 The proposition presents the offer for freehold acquisition as a “guaranteed land payment of the sum set out in Part II.” It is important to stress however, that this guarantee relates to the specific scheme presented in their proposal and on the assumption that that scheme secures planning consent. A different scheme could result in a significantly different land value and thus a different payment to the council.
- 3.16 The current proposal is for the land payment to be paid to the council in the three tranches set out in the Part II Appendix.
- 3.17 As part of on-going negotiations, council officers have been keen to explore alternative payment options (e.g. earlier payment and upfront payment) and the consequences that would flow from these in the event that the ultimate scheme increases or decreases in value. At its meeting on 20 November 2013, the Project Board agreed the principle of freehold disposal, considered payment options and agreed its preference for early payment to the council, and supported the inclusion of appropriate provisions in the sale agreement to deal with the eventuality that the scheme that gains planning consent has a reduced value. These matters are to be discussed with the University and Cathedral teams at a meeting scheduled for 27 November and it is possible, subject to progress, that an update can be given to the committee on 5 December.

#### Heads of Terms

- 3.18 Draft Heads of Terms (HoT) for a proposed disposal of either the freehold or a 250 year lease were initially produced by the University, and these formed the basis of discussion at the first tripartite meeting held on 12<sup>th</sup> July. An amended version was submitted as part of the detailed proposition and further mark-ups have been exchanged between the parties since that time. A copy of the latest draft Heads of Terms for a freehold disposal is set out in the Part II Appendix. These are not yet agreed and an update can be given at the committee meeting.
- 3.19 While considerable progress has been made, these drafts have raised a number of issues which are still being considered and will form part of ongoing negotiations. Some of the key issues are highlighted in section 7.

#### Site Valuation

- 3.20 To assist assessment of the proposed scheme and the financial offer, the council appointed DTZ consultants to undertake a detailed valuation and development appraisal of the University/Cathedral proposal. DTZ were appointed in August and have worked closely with the council team during the assessment period to date. Their involvement included attendance at meetings with the University and Cathedral, at which additional financial details were gathered. DTZ’s earlier

involvement in the financial viability assessment of the 2012 masterplan assisted them in their task as they were already knowledgeable about the project and its background.

3.21 The brief to DTZ required the following:

1. A Market Value of the Freehold interest in the Preston Barracks site on the specific assumption that the site has planning permission and all other consents for the scheme proposed by Cathedral Group and the University of Brighton.
2. A review of the University and Cathedral's proposals and a comprehensive financial development appraisal of Brighton and Hove Council's interest in the site.
3. A market commentary on each of the assumed values and costs of the uses that underpin the appraisal.
4. Clear assumptions of infrastructure, Section 106/CIL costs as well as fees and costs of public areas and any other costs that should be taken into account.
5. Sensitivity analysis on values and costs.

3.22 DTZ submitted their 'Valuation Report' on 31<sup>st</sup> October. Having assessed the development appraisal submitted by Cathedral, and reviewed current market conditions and values, DTZ advised the council as follows: **"We are of the opinion that the Market Value as at 30 October 2013 of Brighton & Hove City Council's freehold interest in the property (Preston Barracks site), subject to the Assumptions, Special Assumptions and comments in this Valuation Report and in the Appendices is..."** (the amount set out in the Part II papers).

3.23 The DTZ valuation is lower than the offer made to the council. Their valuation is based on current market values and takes a considered approach to risk to provide an open market value, which includes an assumption of a 20% profit based on cost, which is the industry standard. Cathedral on the other hand has taken a more bullish approach to their appraisal and has adopted a profit of 17% on cost.

3.24 The valuation therefore confirms that the current proposal achieves a positive land value; a considerable step forward bearing in mind the 2012 masterplan achieved a negative value of between -£7m and -£12m. The valuation supports the council in demonstrating 'Best Consideration' for the land, and provides confidence in the assumptions put forward by the University and Cathedral, but the council will wish to fully bottom out what happens in the event that the scheme undergoes substantial revision, resulting in a different scheme and value at the point of planning approval. It is with this in mind that the council will wish to agree the mechanism by which increases and decreases in value are to be treated and shared among the partners.

## Planning View

- 3.25 The University/Cathedral proposal deviates quite markedly from the balance of land uses and floorspace targets set out in the City Plan and the 2011 planning brief. The proposed figure of 1,288 student bed spaces is 72% greater than the 750 target set out in these documents; the proposed 350 units of housing is a 10% increase on the 318 'estimated' figure in the planning brief and only 20% of affordable housing is proposed (when planning policy aims for 40%). There is no stated aspiration in the current proposal for a zero carbon or carbon neutral development as required by the brief.
- 3.26 It may be possible to explore innovative ways of increasing the proportion of affordable housing by entering into arrangements with the city council as a housing provider, or other housing agencies, to acquire homes off plan at discounted rates. These homes could be debt financed, subject to a financially viable business case, and may be attractive to housing services having to access properties to rent from private landlords or including homes for rent, shared ownership and Extra Care Housing.
- 3.27 The principal planning concern, however, would relate to the long term expectation for the Preston Barracks site to deliver a strategically significant employment-led development of at least 10,600 sq m of B1 floorspace, whereas the University/Cathedral proposal includes 4,117 sq m employment floorspace, only 39% of that sought by the City Plan and planning brief. Cathedral's presentations to date have stressed the need for mindsets to change away from numerical floorspace requirements towards an appreciation of the dynamic role that the CRL would play in creating new innovative businesses and jobs in the city. The example of the proposed facility at Hayes has been cited, but this has yet to be proven or even built. If it was to be persuaded to support a scheme that is so far from securing the employment floorspace figures required by planning policy, the local planning authority would require convincing evidence of the proposed CRL's job creation benefits. It may even seek certainty of further floorspace being secured (if not on-site then elsewhere in the city) to provide for the innovatory businesses and jobs that should be spinning out from the CRL.
- 3.28 On a more positive note, the proposal places the CRL in phase 1 of the development, thereby providing certainty of this element of the scheme. This would need to be strongly emphasised by the developer as a factor in favour of the proposal. A more open allocation for the academic floorspace proposed on the Watts car park (i.e. either academic or employment B1) may also assist in respect of addressing employment floorspace concerns, but may conflict with the university's aspirations to allow for its future potential expansion on the site to meet future needs.
- 3.29 The substantial increase in student accommodation above the estimated figure set out in the planning brief may be considered a negative factor in terms of meeting the brief's overall objectives, including its targeted quantum of employment floorspace (also a City Plan target), its desired balance of land uses and the creation of a neighbourhood node where 'town meets gown'. A counter argument would be to view the location as eminently suitable for development of this nature due to its obvious physical proximity to the immediate Moulsecoomb Campus and other University buildings along the Lewes Road corridor.

- 3.30 Public realm aspirations including the volley ball courts, the highline walkway and other factors to make this a uniquely 'Brighton' development are interesting and broadly moving in the right direction. In this respect, the proposed treatment of the Mannock building would need very careful consideration and would likely be a source of controversy. Insufficient design work has been undertaken to date to make an informed view on this element of the proposal.
- 3.31 It is not unusual for major development proposals and planning permissions to deviate from targets set out in planning policy documents. Local planning authorities are duty bound to take into account a variety of material considerations in assessing a planning application. In the case of the current emerging proposal, the City Plan and the planning brief would form the starting point of any planning negotiations, but market conditions and financial viability would also be key issues. An open book approach or other alternative arrangements for viability testing would be important elements in the developer and local planning authority engaging in a constructive dialogue on the scheme, along with the developer providing well-researched evidence and a convincing case of the benefits of the development package and how it would form a sustainable development node that both integrates and serves its locality and helps meet the recognised strategic needs of the city.

#### Timetable

- 3.32 Subject to agreement to the recommendations set out in this report, an indicative timetable for the completion of negotiations, together with the University/Cathedral's outline of the delivery timetable thereafter is as follows:

Event	Timescale
1. Project Board received update and supported progression and referral to P&R	20 November 2013
2. P&R notes progress and agrees recommendations	5 December 2013
3. Complete negotiations, finalise Heads of Terms and complete documentation	End February 2014
4. Pre-application planning process commences	From mid 2014
5. Planning Application submitted	By mid 2015
6. Planning consent	End 2015 / Early 2016
7. Construction starts	2016
8. Construction completed	2018/19

## **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 As set out in the previous report to this committee, the Project Board considered a range of options with the aim of developing a viable approach to the delivery of a successful scheme at Preston Barracks. These included seeking significant revisions to the 2012 masterplan; disposal of the council owned Preston Barracks site to the University; consideration of the third party offer to acquire the entire Preston Barracks site; and marketing the site for sale. It was through



analysis of these options that the Project Board and the Policy & Resources Committee concluded that senior officers should enter into further negotiations to actively consider disposal of the site to the University and/or its development partner.

## **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 Community engagement and consultation will be an important element of future work, particularly as the scheme progresses towards a planning application. The timetable submitted by the University and Cathedral shows a five-month programme of community consultation leading up to submission of the planning application, and Cathedral is known to have a strong track record in this important area.

## **6. CONCLUSION**

- 6.1 The council's partnership with the University was formed in 2009, as it was considered to offer the best prospect of bringing about a high quality development to meet the demands of the city and the University, as well as promoting the regeneration of the Lewes Road corridor; a development that should also better integrate with surrounding communities.
- 6.2 This remains the case, something reaffirmed by the Policy & Resources Committee in July 2013. Disposal of the Preston Barracks site to the University and its preferred partner will address the previous financial viability issues and is considered to be an appropriate route by which to deliver a successful scheme. Agreement to the recommendations in this report will enable the University to make headway with its academic and student priorities, the pressures on which are increasing, while also supporting the delivery of much needed homes and employment space, with increased business growth potential through stronger links with the University, a key element of the Greater Brighton City Deal 'Growth Hub' proposals.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 The current offer for the proposed freehold disposal is based on the indicative scheme and will generate a capital receipt to the council, paid in tranches up to 2 years following completion of the freehold transfer. If the negotiation process results in the capital receipt being made sooner than this proposal, the overall receipt is expected to be lower to reflect the present value of earlier receipts compared to payments in the future. The final offer may also change depending on the scheme agreed through planning; the negotiation process will include agreeing the conditions and method of arriving at a revised offer if required.
- 7.2 Any proceeds from the disposal of this site are ringfenced for reinvestment into regeneration as agreed with the original purchase of the site. DTZ, the council's valuation advisors for this scheme have undertaken a valuation that demonstrates a positive value for the site based on the proposed mix of uses. The sensitivity analysis provided by DTZ confirms the proposed capital receipt can be justified based on an assumption of a lower developers profit for the

scheme which has been proposed by the purchasers. The DTZ valuation assumes the CRL is cost neutral however for the CRL to achieve this it is likely to require a level of grant or loan financing subsidy pursued potentially through the City Deal or LEP Growth deal process.

- 7.3 The proposed mix of uses for the site and the university held land will generate additional council tax revenues for the council from the housing, and business rates income from the commercial aspects of the scheme. The inclusion of student housing could also free up housing within the city that is occupied by students and this could also increase council tax revenue.

*Finance Officer Consulted: James Hengeveld Date: 15/11/13*

Legal Implications:

- 7.4 This report seeks authority for negotiations with the JV to be concluded and for the documentation to be entered into accordingly.
- 7.5 The Heads of Terms are currently subject to negotiation and the Part II Appendix sets out the latest version with appropriate notes regarding particular issues. The key issues to be resolved, which are linked, relate to (a) the timing and amount of the total sum to be paid by the JV to the council and (b) the timing of the disposal. Re (a) these are to be structured so as to ensure that compliance with the best consideration rules is achieved and re (b) the issue is complicated by vacant possession issues.

*Lawyer Consulted: Bob Bruce Date: 14/11/13*

Equalities Implications:

- 7.6 There are not considered to be any specific equalities issues arising from this report.

Sustainability Implications:

- 7.7 Sustainability implications have been a significant feature of all previous stages of work and will remain a focus for future work. Both partners are committed to ensuring the highest standards to deliver a sustainable development with a high level of sustainable design and to minimise or re-use energy need within the site.

Any Other Significant Implications

- 7.8 The Preston Barracks site is of strategic importance as an employment site and as an urban gateway to Brighton, with potential for a significant number of new homes. The development opportunity it presents is significant to the city as a whole as well as the local communities that adjoin it. The shortage of quality sites for development and regeneration purposes places real pressure on the council to ensure this mixed-use redevelopment performs across physical, economic and social levels. Disposal of the council owned site to the University and its preferred development partner is considered to offer the best prospect for a successful development in line with the original vision and the city's strategic objectives.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

#### Part 2 Appendix

1. Additional confidential information relating to the financial offer, DTZ valuation and draft Heads of Terms.

### **Documents in Members' Rooms**

1. The initial proposition (Volumes 1 and 2) submitted to the council by the University and Cathedral

### **Background Documents**

1. Report to Policy & Resources Committee 11 July 2013